Chippewa Township Mecosta County, Michigan

REPORT ON FINANCIAL STATEMENTS

(with required supplementary information)

Year ended March 31, 2006

Chippewa Township LIST OF ELECTED OFFICIALS March 31, 2006

Supervisor	George Griffes
Clerk	Ilene June Stein
Treasurer	Julie Austin
Trustees	
	Nelda Metcalt

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As management of Chippewa Township, we present to the readers of the Township's financial statements this overview and analysis of the financial activities of the Chippewa Township for the fiscal year ended March 31, 2006. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. Chippewa Township's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of Chippewa Township's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of Chippewa Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Chippewa Township is improving or deteriorating.

The Statement of Activities presents information showing how the Chippewa Township's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business-type activities). The governmental activities of the Township include general government, public safety, public works, community and economic development and cultural and recreational activities. The business-type activities of the Township include sewer services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Chippewa Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Chippewa Township can be divided into three categories—governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between the two.

Chippewa Township maintains two governmental funds, the General Fund and the Chippewa Lake Weed Control Fund.

Proprietary Funds

Chippewa Township has one type of proprietary fund. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses a proprietary fund to account for its sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provided separate information for the Sewer Fund which is a major fund.

Fiduciary Funds

Fiduciary Funds are used to account for resources held for the benefit of parties outside Chippewa Township. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the Chippewa Townships programs. The accounting method used for fiduciary finds is much like that used for the proprietary funds.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning Chippewa Township budgetary information as it relates to the actual expenditures for the General Fund.

Government-wide Financial Analysis

The first table presented below is a summary of the government-wide statement of net assets for the Chippewa Township. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of March 31, 2006, Chippewa Township's net assets from governmental activities totaled \$336,789 and \$1,498,079 business-type activities, creating government-wide net assets total of \$1,834,868.

In examining the composition of these net assets, the reader should note that a portion of governmental activities net assets are invested in capital assets (i.e., buildings, land, and equipment, etc.) These assets are used to provide services to Chippewa Township's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental-type activities actually depict a balance of \$226,564. This represents the amount of discretionary resources that can be used for general governmental operations.

The business-type activities show a total of \$1,498,079 in net assets of which \$143,552 is unrestricted net assets.

Net Assets

		Gove	rnm	ental	Business-type								
	_	Act	ivit	ies		Activities				Total			
		2006		2005		2006		2005		2006		2005	
Current assets and													
other assets	\$	226,564	\$	194,444	\$	149,590	\$	164,217	\$	376,154	\$	358,661	
Capital assets	_	110,225	_	116,812	_	1,599,527		1,637,078	_	1,709,752	_	1,753,890	
Total assets	_	336,789	_	311,256	_	1,749,117	_	1,801,295	_	2,085,906		2,112,551	
Current liabilies		-		-		41,038		37,550		41,038		37,550	
Noncurrent liabilities	_	-	_	-	_	210,000		245,000	_	210,000	_	245,000	
Total liabilities		-		-		251,038		282,550		251,038		282,550	
Net assets			_		_								
Invested in capital assets		110,225		116,812		1,354,527		1,357,078		1,464,752		1,473,890	
Restricted for debt service		-		-		-		6,640		-		6,640	
Unrestricted	_	226,564	_	194,444	_	143,552		155,027	_	370,116	_	349,471	
Total net assets	\$	336,789	\$	311,256	\$	1,498,079	\$	1,518,745	\$	1,834,868	\$	1,830,001	

The decrease in capital assets for governmental activities from fiscal year 2005 to 2006 is due to the acquisition of electrical panels, and normal depreciation of capital assets. The decrease in current assets and other assets in business-type activities from fiscal year 2005 to 2006 is due to a decrease in sewer receivables. The decrease in capital assets in business-type activities from fiscal year 2005 to 2006 is due to normal depreciation.

For the 2006 fiscal year, governmental activities net assets increased by \$25,533. Business-type activities net assets decreased by \$20,666.

Change in Net Assets

		rnmental tivities	Busine Activ		Total			
	2006	2005	2006	2005	2006	2005		
Revenues:								
Program revenues								
Charges for services	\$ 12,027	\$ 4,000	\$ 216,399	\$ 218,025 \$	228,426 \$	222,025		
Operating grants								
and contributions	34,229	34,120	-	-	34,229	34,120		
General revenues								
Property taxes	135,102	120,683	-	-	135,102	120,683		
Grants and contributions								
not restricted	88,888	93,016	-	-	88,888	93,016		
Franchise fees	1,839	-	-	-	1,839	-		
Unrestricted investment								
earnings	2,966	1,293	7,133	4,086	10,099	5,379		
Miscellaneous	_	10,386	4,157	3,950	4,157	14,336		
Total revenues	275,051	263,498	227,689	226,061	502,740	489,559		
Expenses:								
General government	113,913	109,078	-	-	113,913	109,078		
Public safety	49,105	35,934	-	-	49,105	35,934		
Public works	72,584	199,612	-	-	72,584	199,612		
Culture and recreation	13,916	13,322	-	-	13,916	13,322		
Sewer Fund			248,355	274,072	248,355	274,072		
Total expenses	249,518	357,946	248,355	274,072	497,873	632,018		
Change in net assets	25,533	(94,448)	(20,666)	(48,011)	4,867	(142,459)		
Net assets - Beginning	311,256	405,704	1,518,745	1,566,756	1,830,001	1,972,460		
Net assets - Ending	\$ 336,789	\$ 311,256	\$ 1,498,079	\$ 1,518,745 \$	1,834,868 \$	1,830,001		

Revenue increased approximately \$17,000 in governmental activities due to increases in property taxes. Public safety increased as quarterly fire department costs increased. Public works decreased as there was significantly less road construction in the current year. Expenditures decreased in business-type activities due to lower sewer usage.

Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, Chippewa Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of Chippewa Township governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balances, or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2006 fiscal year, Chippewa Township governmental funds reported an unreserved fund balance of \$190,250 of which 100% is unrestricted and unreserved.

General Fund Budget

During the current fiscal year, Chippewa Township made a few amendments to its original budget. The most significant of those is listed below:

➤ Increased capital outlay budget by \$11,000 to add additional fire equipment.

During the fiscal year, the Township's noteworthy variations from the final budget to actual revenues and expenditures are listed below:

- > Franchise fee revenue was down due to a less than expected payment from Charter Communications.
- ➤ Investment earnings were better than budgeted due to higher interest rates.
- Legislative expenditures were less than budgeted due to spending less than anticipated for education and training.
- Election expenditures were down due to less election activity for the year.
- Town hall expenditures were less than budgeted due to fewer repairs and maintenance and utility expenditures.
- Cemetery operations budget was slightly under budget due to decreased maintenance for the year.
- ➤ Professional fees were less than budgeted due to expenditures being lower than expected.
- ➤ Public safety expenditures were less than budgeted due to not purchasing some large equipment.
- Public works expenditures were less than budgeted due to less than expected bridge maintenance.
- Culture and recreation expenditures were less than budgeted due to not completing all anticipated park projects.
- ➤ Capital outlay expenditures were less than budgeted due to not completing all anticipated projects.

Capital Assets

Chippewa Township investment in capital assets for its governmental and business-type activities as of March 31, 2006 totaled \$1,709,752 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, improvements, machinery, equipment, plants and vehicles.

The only major capital asset event during the current fiscal year was the Township's purchase of a control panel for the sewer fund for \$17,000.

Capital Assets (Net of Accumulated Depreciation)

		Gover	nme	ental	Business-type						
		Act	iviti	es	Activities Total						
		2006	_	2005	2006	,	2005	_	2006		2005
Land	\$	25,587	\$	25,587	\$ -	\$	-	\$	25,587	\$	25,587
Buildings and											
improvements		14,793		15,834	-		-		14,793		15,834
Plants and											
infrastructure		-		-	1,572,596		1,625,780		1,572,596		1,625,780
Furniture and											
equipment	_	69,845	_	75,391	 26,931		11,298	_	96,776		86,689
Total	\$_	110,225	\$	116,812	\$ 1,599,527	\$	1,637,078	\$	1,709,752	\$	1,753,890

Additional information on Chippewa Township's capital assets can be found in Note D of the "Notes to Financial Statements" of this report.

General Economic Overview

Chippewa Township's General Fund is comprised of two major revenue sources, state revenue sharing and property tax revenue. Those two sources comprised 83% of the General Fund revenue sources. In fiscal year 2009, state revenue sharing is expected to continue to decline. Property tax revenues will likely remain flat or have a slight increase.

The Township Board is somewhat cautious on expenditures of the Township due to the economic uncertainties of Mecosta County and Michigan with regards to state revenue sharing. The employment situation for this area is a concern, so the Township will continue being conservative with spending.

However, Chippewa Township is optimistic about future economic growth and development in the Township. The Township continues to work on its recreation master plan, which will assist in meeting future recreational and leisure-time needs as the Township grows.

Requests for Information

This financial report is designed to provide a general overview of Chippewa Township's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Chippewa Township, 19171 4th Street, Chippewa Lake, MI 231-867-3777.



INDEPENDENT AUDITORS' REPORT

November 21, 2008

Township Board Chippewa Township Chippewa Lake, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Chippewa Township as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Chippewa Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Chippewa Township, as of March 31, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i - vii and 21 - 22 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

ruhley lexanoz, PLC

Chippewa Township STATEMENT OF NET ASSETS

March 31, 2006

ASSETS

	Governmental activities			Business-type activities		Total
CURRENT ASSETS	_					
Cash and investments	\$	161,898	\$	5,875	\$	167,773
Receivables		50,577		28,291		78,868
Due from other governmental units	_	14,089	_	18,110	_	32,199
Total current assets		226,564		52,276		278,840
NONCURRENT ASSETS						
Restricted assets		-		2,494		2,494
Capital assets, net						
Nondepreciable		25,587		-		25,587
Depreciable		84,638		1,599,527		1,684,165
Special assessments receivable	_		_	94,820	_	94,820
Total noncurrent assets	_	110,225	_	1,696,841	_	1,807,066
Total assets		336,789		1,749,117		2,085,906
LIABILITIES AND NET AS	SETS					
CURRENT LIABILITIES						
Accrued liabilities		-		6,038		6,038
Bonds and other obligations, due within one year	_		_	35,000	_	35,000
Total current liabilities		-		41,038		41,038
NONCURRENT LIABILITIES						
Bonds and other obligations, less amounts due within one year	_		_	210,000		210,000
Total liabilities	_	-	_	251,038	_	251,038
NET ASSETS						
Invested in capital assets, net of related debt		110,225		1,354,527		1,464,752
Unrestricted	_	226,564	_	143,552		370,116
Total net assets	\$_	336,789	\$	1,498,079	\$	1,834,868

Chippewa Township STATEMENT OF ACTIVITIES

For the year ended March 31, 2006

	Program Revenue]	Net (Expense)	Reve	enue and Chang	ges i	n Net Assets
			-	Charges for	-	ating grants	G	overnmental	I	Business-type		
Functions/Programs	_	Expenses	_	services	and co	ontributions	activities		activities		_	Total
Governmental activities												
General government	\$	113,913	\$	15,137	\$	-	\$	(98,776)	\$	-	\$	(98,776)
Public safety		49,105		-		-		(49,105)		-		(49,105)
Public works		72,584		-		34,229		(38,355)		-		(38,355)
Culture and recreation	_	13,916	_			-	_	(13,916)	_		_	(13,916)
Total governmental activities		249,518		15,137		34,229		(200,152)		-		(200,152)
Business-type activities												
Sewer	_	248,355	_	216,399			_		_	(31,956)	_	(31,956)
Total business-type activities	_	248,355	_	216,399			_	-	_	(31,956)	-	(31,956)
Total government	\$_	497,873	\$_	231,536	\$	34,229		(200,152)		(31,956)		(232,108)
General revenues												
Property taxes								131,992		-		131,992
Franchise fees								1,839		-		1,839
Grants and contributions not restricted to specific programs								88,888		-		88,888
Unrestricted investment earnings								2,966		7,133		10,099
Miscellaneous								<u>-</u>	_	4,157	_	4,157
Total general revenues								225,685	-	11,290	-	236,975
Change in net assets								25,533		(20,666)		4,867
Net assets at April 1, 2005							_	311,256	-	1,518,745	_	1,830,001
Net assets at March 31, 2006							\$	336,789	\$	1,498,079	\$	1,834,868

Chippewa Township BALANCE SHEET

Governmental Funds March 31, 2006

	_	General Fund		Lake Board		Total overnmental funds
ASSETS						
Cash and investments	\$	135,571	\$	26,327	\$	161,898
Receivables						
Special assessments		-		36,314		36,314
Property taxes		14,263		-		14,263
Due from other governmental units	_	14,089	_	-		14,089
Total assets	\$ <u></u>	163,923	\$	62,641	\$	226,564
LIABILITIES AND FUND BALANCES						
Liabilities						
Deferred revenue	\$	-	\$	36,314	\$	36,314
Fund balances						
Unreserved, undesignated						
General Fund		163,923		-		163,923
Special revenue fund	_	-	_	26,327		26,327
Total fund balances		163,923		26,327		190,250
Total liabilities and fund balances	\$	163,923	\$	62,641	\$	226,564

Chippewa Township RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

March 31, 2006

Total fund balance—governmental funds		\$ 190,250
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of capital assets	\$ 205,844	
Accumulated depreciation	 (95,619)	110,225
Special assessment revenue is not recognized until it is receivable in the current period and therefore is shown as deferred revenue in the governmental funds.		 36,314
Net assets of governmental activities in the Statement of Net Assets		\$ 336,789

Chippewa Township STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Governmental Funds For the year ended March 31, 2006

					Total
		neral	Lake		governmental
	<u>F</u>	und	 Board		funds
REVENUES					
Property taxes	\$ 1	31,992	\$ -	\$	131,992
Licenses and permits		81	-		81
Intergovernmental revenues - State		93,653	-		93,653
Charges for services		5,085	-		5,085
Investment earnings		2,890	76		2,966
Other		5,759	 33,845		39,604
Total revenues	2	39,460	33,921		273,381
EXPENDITURES					
Current					
General government	1	04,530	-		104,530
Public safety		39,880	-		39,880
Public works		52,030	20,554		72,584
Culture and recreation		13,916	-		13,916
Other governmental functions		6,938	-		6,938
Capital outlay		5,082	 _	_	5,082
Total expenditures	2	22,376	 20,554		242,930
Net change in fund balances		17,084	13,367		30,451
Fund balances at April 1, 2005	1	46,839	 12,960	_	159,799
Fund balances at March 31, 2006	\$1	63,923	\$ 26,327	\$	190,250

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

For the year ended March 31, 2006

Net change in fund balances—total governmental funds		\$ 30,451
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.		
Depreciation expense	\$ (11,669)	
Capital outlay	 5,082	(6,587)
Governmental funds recognize special assessments as revenues as they become current,		
however they are recognized in full when levied in the Statement of Net Assets		 1,669
Change in net assets of governmental activities		\$ 25,533

STATEMENT OF NET ASSETS

Proprietary Funds March 31, 2006

ASSETS

		Sewer
CURRENT ASSETS	-	Fund
Cash and investments	\$	5,875
Accounts receivable	Ψ	28,291
Due from other governmental units	_	18,110
Total current assets		52,276
NONCURRENT ASSETS		
Restricted assets		2,494
Capital assets, net		
Plant and system		2,865,370
Equipment and furniture		32,212
Less accumulated depreciation	_	(1,298,055)
Net capital assets		1,599,527
Special assessment receivable	_	94,820
Total noncurrent assets	_	1,696,841
Total assets		1,749,117
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued liabilities		6,038
Bonds and other obligations due within one year	_	35,000
Total current liabilities		41,038
NONCURRENT LIABILITIES		
Bonds and other obligations, less amounts due within one year	_	210,000
Total liabilities	_	251,038
NET ASSETS		
Invested in capital assets, net of related debt		1,354,527
Unrestricted	_	143,552
Total net assets	\$	1,498,079

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

Proprietary Funds

For the year ended March 31, 2006

		Sewer
REVENUES		
Charges for services	\$	201,038
Other	_	19,518
Total operating revenues		220,556
OPERATING EXPENSES		
Operations		174,570
Depreciation and amortization	_	58,978
Total operating expenses	_	233,548
Operating loss		(12,992)
NONOPERATING REVENUES (EXPENSES)		
Investment earnings		7,133
Interest expense	_	(14,807)
Total nonoperating revenue (expenses)	_	(7,674)
Change in net assets		(20,666)
Net assets at April 1, 2005	_	1,518,745
Net assets at March 31, 2006	\$_	1,498,079

Chippewa Township STATEMENT OF CASH FLOWS

Proprietary Funds

For the year ended March 31, 2006

CACH ELOWS EDOM ODED ATTIVE ACTIVITYES	_	Sewer
CASH FLOWS FROM OPERATING ACTIVITIES Receipts from customers	\$	189,071
Payments to suppliers	Ψ	(101,741)
Payments to employees		(72,829)
Other receipts		4,157
Net cash provided by operating activities		18,658
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Special assessments		17,804
Purchases of capital assets		(21,427)
Principal paid on capital debt		(30,000)
Interest paid on capital debt	_	(15,813)
Net cash used for capital and related financing activities		(49,436)
CASH FLOW FROM INVESTING ACTIVITIES		
Interest earnings	_	7,133
Net decrease in cash and investments		(23,645)
Cash and investments at April 1, 2005	_	32,014
Cash and investments at March 31, 2006	\$_	8,369
Reconciliation of cash and investments to statement of net assets		
Cash and investments	\$	5,875
Restricted assets		2,494
	\$	8,369
	_	
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$	(12,992)
Adjustments to reconcile operating loss to net cash provided by	Ψ	(12,772)
operating activities		
Depreciation expense		58,978
Change in assets and liabilities		,
Receivables, net		(28,252)
Due from other governmental units		1,470
Accrued liabilities	_	(546)
Net cash provided by operating activities	\$	18,658

Charter Township of Green

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

Fiduciary Funds March 31, 2006

		Agency fund - Tax Collection		
ASSETS Cash and investments	\$	<u>'45</u>		
LIABILITIES Due to other governmental units	\$ 7	45		

Chippewa Township NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Chippewa Township (Township) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township's accounting policies are described below.

Reporting Entity

The Township is a township governed by an elected five-member board.

Generally accepted accounting principles require that if the Township has certain oversight responsibilities over other organizations, those organizations should be included in the Township's financial statements. Since no organizations met this criteria, none are included in the financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Township does not allocate indirect costs.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Township reports the following major governmental fund:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Lake Board collects and pays for weed control on Chippewa Lake.

The Township reports the following major proprietary fund:

The Sewer Fund operates the Township's sewage pumping station and collection systems.

Additionally, the Township reports the following fund type:

The Tax Collection Fund accounts for the tax revenue collected by the Township for the benefit of other units of local government within the area.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Township's sewer function and various other functions of the government. Elimination of these charges would distort the direct cost and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. Operating expenses for the proprietary fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses, including tap fees intended to recover the cost of connecting new customers to the system.

When both restricted and unrestricted resources are available for use, it is the Township's policy is to use restricted resources first, then unrestricted resources as they are needed.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Township reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and Township intends to hold the investment until maturity.

The Township has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Township to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds. All investments are stated at fair value.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The Township bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31 and are due without penalty on or before February 14. Uncollectible real property taxes as of the following March 1 are turned over by the Township to the County for collection. The County advances the Township all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Township. The Township recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2005 state taxable value for real/personal property of the Township totaled approximately \$41,875,000. The ad valorem taxes levied consisted of 1.2102 mills for the Township's operating purposes, .9682 mills for fire protection and .9682 for roads. These amounts are recognized in the General Fund.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., sewer system assets), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of a year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	15-40
Furniture and equipment	3-15
Plants and systems	40-50

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The Township follows these procedures in establishing the budgetary information provided in the financial statements:

- a. In January, the Township supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
- c. Not later than the first Tuesday in March, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Township Board. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The Township's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Township Board. The legal level of budgetary control is the department level. The Township Board made several supplemental budgetary appropriations throughout the year.

NOTE C—DEPOSITS AND INVESTMENTS

Interest rate risk. The Township does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The Township has no investment policy that would further limit its investment choices.

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the Township investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The Township limits its investment in commercial paper of any one firm to not more than five percent of the Township's investments.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2006, \$81,589 of the Township's bank balance of \$185,231 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The Township does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The Township is not authorized to invest in investments which have this type of risk.

NOTE D—CAPITAL ASSETS

Capital assets activity for the year ended March 31, 2006 was as follows:

		Balance				Balance
		April 1,				March 31,
		2005		Additions	Deductions	2006
Governmental activities:	-		-			
Capital assets, not being depreciated:						
Land	\$	25,587	\$	-	\$ -	\$ 25,587
Capital assets, being depreciated:						
Buildings and improvements		41,645		-	-	41,645
Furniture and equipment	_	133,530	_	5,082	-	 138,612
Total capital assets, being depreciated		175,175		5,082	-	180,257
Less accumulated depreciation:						
Buildings and improvements		25,811		1,041	-	26,852
Furniture and equipment	_	58,139	_	10,628	-	 68,767
Total accumulated depreciation	_	83,950		11,669	_	 95,619
Total capital assets, being						
depreciated, net	-	91,225	_	(6,587)	_	 84,638
Capital assets, net	\$	116,812	\$	(6,587)	\$ -	\$ 110,225

NOTE D—CAPITAL ASSETS—Continued

		Balance					Balance
		April 1,					March 31,
		2005	_	Additions	Deductions		2006
Business-type activities:	_					_	
Capital assets, being depreciated:							
Plant and system	\$	2,860,943	\$	4,427	\$ -	\$	2,865,370
Equipment	_	15,212	_	17,000	-		32,212
Total capital assets, being depreciated		2,876,155		21,427	-		2,897,582
Less accumulated depreciation:							
Plant and system		1,235,163		57,611	-		1,292,774
Equipment	_	3,914	_	1,367	_		5,281
Total accumulated depreciation	_	1,239,077	_	58,978	-		1,298,055
Capital assets, net	\$_	1,637,078	\$	(37,551)	\$ _	\$	1,599,527

Depreciation

Depreciation expense has been charged to functions as follows:

Governmental activities:

General government	\$ 2,444
Public safety	 9,225
	\$ 11,669

Business-type activities:

Depreciation expense of \$58,978 for business-type activities was charged to the sewer function.

NOTE E—LONG-TERM DEBT

	Balance					Balance	
	April 1,					March 31,	Due within
	2005	Additions		Reductions		2006	one year
Business-type activities:			,		•		
Revenue bonds	\$ 275,000	\$ -	\$	30,000	\$	245,000	\$ 35,000

Business-type activities:

Revenue bonds:

\$395,000 Drain/Special Assessment Roll No. 2 in annual installments of \$35,000 through October 2012; interest at 5.75%

\$ 245,000

NOTE E—LONG-TERM DEBT—Continued

The Township was in compliance in all material respects with all the revenue bond ordinances at March 31, 2006.

Annual debt service requirements to maturity for debt outstanding as of March 31, 2006 follows:

Year ending	ending Business-type activ						
June 30,	_	Principal		Interest			
2007	\$	35,000	\$	14,088			
2008		35,000		12,075			
2009		35,000		10,063			
2010		35,000		8,050			
2011		35,000		6,038			
2012-2013		70,000		6,038			
	\$	245,000	\$_	56,352			

NOTE F—OTHER INFORMATION

Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss in excess of insurance coverage can be reasonably estimated. There has been no loss in excess of insurance in the past three years.

NOTE G—PENSION PLAN

The Township provides pension benefits for all of its Board members and full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the Plan plus investment earnings. The Plan is administered through John Hancock USA Group Pension Services, an independent third party. The Plan requires the Township to contribute 20 percent of covered payroll. Plan provisions and contribution requirements are established and may be amended by the Board. For the year ended March 31, 2006, the contribution to the Plan by the Township was approximately \$4,000.

NOTE H—ECONOMIC DEPENDENCY

The State of Michigan shared revenues represent approximately 39 percent of General Fund revenues.



Required Supplementary Information

BUDGETARY COMPARISON SCHEDULE

General Fund

For the year ended March 31, 2006

Variance with

		Budgeted amounts				fii	nal budget -	
	_	Original		Final		Actual		negative)
REVENUES					_			
Property taxes	\$	126,200	\$	135,200	\$	131,992	\$	(3,208)
Licenses and permits		100		100		81		(19)
Intergovernmental revenues - State		94,300		94,300		93,653		(647)
Charges for services		5,500		5,500		5,085		(415)
Franchise fees		3,000		3,000		1,839		(1,161)
Investment earnings		2,000		2,000		2,890		890
Other		6,100		6,100		3,920		(2,180)
Total revenues		237,200		246,200		239,460		(6,740)
EXPENDITURES								
Current								
General government								
Legislative		18,974		18,974		16,789		2,185
Supervisor		7,148		7,148		6,197		951
Elections		1,500		1,500		781		719
Assessing		23,000		23,000		22,350		650
Clerk		8,689		8,689		7,689		1,000
Board of Review		1,600		1,600		1,241		359
Treasurer		20,124		20,124		19,648		476
Town hall		12,000		12,000		7,886		4,114
Cemetery		20,000		20,000		17,074		2,926
Professional		9,000		9,000		4,875		4,125
Public safety								
Fire contract		110,500		110,500		39,880		70,620
Public works								
Highways		66,600		66,600		52,030		14,570
Culture and recreation		16,000		16,000		13,916		2,084
Other governmental functions		42,705		42,705		6,938		35,767
Capital outlay	_		_	11,000	_	5,082		5,918
Total expenditures	_	357,840		368,840	_	222,376		146,464
Net change in fund balance	\$	(120,640)	\$	(122,640)		17,084	\$	139,724
Fund balance at April 1, 2005					_	146,839		
Fund balance at March 31, 2006					\$	163,923		

Required Supplementary Information

BUDGETARY COMPARISON SCHEDULE

Lake Board Fund

For the year ended March 31, 2006

	_	Budgete	ed amo					ariance with inal budget-positive
	_	Original		Final		Actual		(negative)
REVENUES								
Investment earnings	\$	200	\$	200	\$	76	\$	(124)
Other	_	48,294		48,294	_	33,845	_	(14,449)
Total revenues		48,494		48,494		33,921		(14,573)
EXPENDITURES								
Current								
Public works	_	48,494		48,494	_	20,554		27,940
Net change in fund balance	\$=	-	\$ _			13,367	\$ =	13,367
Fund balance at April 1, 2005						12,960		
Fund balance at March 31, 2006					\$	26,327		

BRICKLEY DELONG CERTIFIED PUBLIC ACCOUNTANTS

November 21, 2008

Township Board Chippewa Township Chippewa Lake, Michigan

In planning and performing our audit of the financial statements of Chippewa Township as of and for the year ended March 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Chippewa Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Chippewa Township's internal control. Accordingly, we do not express an opinion on the effectiveness of Chippewa Township's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified and we have attached deficiencies in internal control that we consider to be significant deficiencies.

This communication is intended solely for the information and use of management, the Township Board, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

SIGNIFICANT DEFICIENCIES

Recommendation 1: The internal controls surrounding the preparation of formal year end financial statements should be improved.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year end financial statements.

The Organization should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles.

Recommendation 2: Accounts receivable and accounts payable should be recorded on the Township's system at year end.

During our audit, we noted that both accounts receivable and accounts payable were not adjusted to supporting detail at year end.

The performance of a reconciliation at year end would increase the opportunity for accounts receivable and accounts payable activity to be properly recorded in the general ledger.

Recommendation 3: The internal control procedures should be further segregated.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining an accounting system with strong internal accounting controls including significant segregation of duties.

The Township should continue using its current accounting system, but seek opportunities to further segregate duties and strengthen internal controls. Often, the most effective approach is the expansion of documented approval of transactions and reconciliations by the Township's Board.